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Unconscious Bias in New Hire Compensation: Profitability Expectations vs. Gender Pay Bias

Catherine Verhoff

Retired Chief Diversity Officer & Chief Legal Officer, PGIM

George Wilbanks

Managing Partner, Wilbanks Partners llc

Wilbanks Partners llc
One Stamford Plaza, 9th Floor
263 Tresser Boulevard | Stamford, CT 06901 | Tel: 203-303-7766 Fax: 203-303-7764

www.wilbankspartners.com

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Summary

Managers are prone to pursuing "value" in their hiring practices, i.e. searching for the most talented professionals at the lowest price. Typically, this pursuit has been ingrained through years of training in efficiency and cost-saving initiatives. However, this "value" hiring practice has an unintended consequence of perpetuating cohort pay bias, including the broad gender and race pay disparities that have recently come under fire.[1,2] Continued progress in correcting cohort pay bias will require educating hiring managers on the business and societal ramifications of this bias and training them to think more holistically about the costs and benefits of diverse and unbiased recruiting.[3]

History

In the 1990s, several of the most embarrassing client failures at some large global recruiting firms occurred when a hiring manager had "over paid" for a recruitment. With candidate compensation data often vaguely outlined and unconfirmed, from time to time a client would discover that a candidate had negotiated successfully for a larger than normal increase in compensation as part of their recruitment. Having experienced the ire of unhappy clients on a number of occasions, many firms eventually adopted a requirement for candidate compensation declarations that could be substantiated, particularly before multiple year guarantees or "buyouts" were issued. This was in direct response to client hiring managers' expectations of "value" or cost efficiency in hiring. It was not done in pursuit of perpetuating cohort pay bias or with any intention of discrimination. It was an unconscious bias that was a byproduct of other important business goals.[4]

Awakening

As a part of the broadening ESG initiatives of more forward-thinking businesses, non-financial goals that are material to a firm's overall success are coming into focus. Greater transparency of data has forced many discriminatory practices into the light.[5] The negative perception of firms that harbor or encourage discriminatory practices has brought to the forefront the need for a more holistic approach to the identification and mitigation of unconscious biases. Faced with very real financial implications, firms are beginning to pursue corrective actions as a business goal, managed through discrete metrics and realistic budgets. Systemic compensation pay bias across various cohorts is a significant part of this discussion.

The Way Forward

The unconscious biases that perpetuate cohort pay gaps (gender and race bias being two of the most important) through recruiting are complex and deep-seated in business practices; therefore, they must be pursued on a multi-dimensional basis.

1. Managers must be trained to identify these issues and target them for correction. Corporate policies should be established that provide guidance on compensation parameters, including compensation blind recruiting. Senior management should acknowledge that there will occasionally be outlying significant beneficiaries (such as an employee who is offered a compensation package of substantially greater than that at their prior employment) and that such an increase may, in fact, be an appropriate reflection of the employee's current value.

2. Annual budgets need to be set with expectations that "value" hires cannot drive consistent expense savings. This multi-tiered expectation needs to be led by the most senior executives and involve the support of FP&A, HRIS, and Comp and Benefit analysis working with hiring managers.

3. Hiring managers and candidates need to be trained with a more transparent data set on compensation bias. This instruction starts with an important compensation bias, which we will call the "employee consistency bias," where long tenured employees are typically paid 10-20% less in total compensation than new employees hired in a competitive environment. As a result, data on compensation is typically closely guarded and distributed to a very small number of the most senior managers. Combatting these inequities requires a diligent analysis of the market and appropriate adjustments from time to time. In the current market, it is particularly important to draw a "moat" around highly regarded employees with healthy market-based compensation.[6,7,8]

Overall, the open discussion on these topics, as a result of the recent legislative initiatives at the state level, has resulted in a variety of cohort pay gap awareness and has created a positive starting point. However, it is essential to recognize the complexity of the issue if meaningful progress is to be achieved.

End Notes

1. Wikipedia, The Free Encyclopedia, s.v. "Gender pay gap," (accessed October 25, 2018), https://en.wikipedia.org/wiki/Gender_pay_gap.

2. Wikipedia, The Free Encyclopedia, s.v. "Racial wage gap in the United States," (accessed October 25, 2018), https://en.wikipedia.org/wiki/Racial_wage_gap_in_the_United_States.

3. Patten, Eileen. "Racial, gender wage gaps persist in U.S. despite some progress." Pew Research Center, accessed October 25, 2018, http://www.pewresearch.org/fact-tank/2016/07/01/racial-gender-wage-gaps-persist-in-u-s-despite-some-progress/.

4. Russell Reynolds Associates, confidential internal memorandum, 2003.

5. "Financial Times Fund Management — Listed: asset managers and their gender pay gaps," *Financial Times*, April 26, 2018, accessed October 25, 2018, https://ig.ft.com/asset-managers-gender-pay-gap/.

6. Jane Welsh, "Mind The Gap – The Gender Pay Gap in the Investment Industry," The Diversity Project, May 18, 2018, accessed October 25, 2018, https://diversityproject.com/2018-05-18/mind-gap-gender-pay-gap-investment-industry.

7. "Editorial: It's time for real diversity in asset management," *Pensions & Investments*, April 30, 2018, accessed October 25, 2018, http://www.pionline.com/article/20180430/PRINT/180439998/its-time-for-real-diversity-in-asset-management.

8. Amanda Cantrell, "Corner Office: A Computer Will Determine the Size of Your Next Paycheck," *Institutional Investor*, September 12, 2018, accessed October 26, 2018, https://www.institutionalinvestor.com/article/b19xtjbnpk4bny/A-Computer-Will-Determine-the-Size-of-Your-Next-Paycheck.